

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2011

McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA

JUNE 30, 2011

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**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

OFFICIALS

JUNE 30, 2011

Board of Trustees serving from January 1, 2011 through December 31, 2011

| Name | Title | Term Expires |
|--------------|-----------|-----------------|
| ----- | ----- | ----- |
| Charles Zahn | Chairman | 12/31/13 |
| Dennis Regal | Secretary | 12/31/15 |
| Craig Strutt | Trustee | 12/31/15 |
| Mike Eilers | Trustee | 12/31/11 |
| Linda Boeke | Trustee | 12/31/16 |

Board of Trustees serving from January 1, 2010 through December 31, 2010

| Name | Title | Term Expires |
|--------------|-----------|-----------------|
| ----- | ----- | ----- |
| Charles Zahn | Chairman | 12/31/13 |
| Doug Farley | Secretary | 12/31/10 |
| Dennis Regal | Trustee | 12/31/15 |
| Craig Strutt | Trustee | 12/31/15 |
| Mike Eilers | Trustee | 12/31/11 |

O'CONNOR, BROOKS & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

W.H. LEGLAR, CPA
S.J. DOMEYER, CPA
M.A. KUEPERS, CPA
J.W. HANNAN, CPA
M.P. RUGGEBERG, CPA
P.C. MCCARTHY, CPA
E.A. SCHILLING, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
McGregor Municipal Utilities
McGregor, Iowa

We have audited the accompanying financial statements of the business type activities and each major fund of the McGregor Municipal Utilities of the City of McGregor, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the McGregor Municipal Utilities as listed in the table of contents. These financial statements are the responsibility of the City of McGregor, Iowa, management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as explained in the third and fifth paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principals used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

We did not observe the physical inventory as of June 30, 2010, since that date was prior to our engagement as auditors for the McGregor Municipal Utilities, nor did we perform procedures on cash, accounts receivable, payables, and loan payable accounts as of June 30, 2010 per the request of management.

Because of the matter discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the results of operations and cash flows for the year ended June 30, 2011.

McGregor Municipal Utilities did not implement GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. In our opinion, accounting principles generally accepted in the United States of America require the recognition of postemployment benefit liabilities and related disclosures. The effect on the financial statements of not implementing GASB No. 45 is not reasonably determinable.

As discussed in Note 1, the financial statements present only the business type activities (Electric and Water Enterprise funds) and do not purport to, and do not, present fairly the financial position of the City of McGregor, Iowa, as of June 30, 2011, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United State of America.

In our opinion, except for the effects, if any, of not implementing GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as described in the fifth paragraph, the statements of net assets for the business type activities and each major fund as listed in the table of contents presents fairly, in all material respects, the financial position of the McGregor Municipal Utilities of the City of McGregor, Iowa, as of June 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 9, 2011, on our consideration of the McGregor Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 4 through 8 and budgetary comparison information on pages 25 through 27 are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the city's business type activities. The accompanying other supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

O'CONNOR, BROOKS & CO., P.C.

O'Connor Brooks & Co P.C.

Dubuque, Iowa
December 9, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

McGregor Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The Utilities' net assets increased by \$36,224 throughout the year's operation to \$806,742.
- During the year, the Utilities' expenses were \$862,991.
- The Utilities' service revenues for the year were \$878,186.
- The Utilities also recorded unrestricted investment earnings of \$2,867.
- The Water Fund reported a net result of income and expenses of \$24,572.
- The Electric Fund reported a net result of income and expenses of \$11,652.
- Budgeted resources available for appropriation exceeded the actual by \$65,889.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – *management's discussion and analysis* (this section), and the *basic financial statements*. The basic financial statements include two kinds of statements that present different views of the Utilities.

- The first two statements are *business type activities* financial statements that provide both long-term and short-term information about the Utilities' overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the Utilities' government, reports the Utilities' operations in more detail than the business type activities statements
 - Proprietary fund statements offer short and long-term financial information about the activities the Utilities operates like businesses.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Figure A-1 summarized the major features of the *business type activities* financial statements, including the portion of the Utilities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1

Major Features of McGregor Municipal Utilities Business Type Activities
and Fund Financial Statements

| | | Fund Statements |
|--|--|---|
| | Business Type Activities | Proprietary Fund |
| Scope | Business type activities | Activities the Utilities operate similar to private businesses |
| Required financial statements | Statement of Net Assets Statement of Activities | Statement of Net Assets Statement of Revenues, Expenses, and Changes in Fund Assets Statement of Cash Flows |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital, and short-term and long-term | All assets and liabilities, both financial and capital, and short-term and long-term |
| Type of inflow/outflow information | All revenues and expenses during year, regardless of when cash is received or paid | All revenues and expenses during year, regardless of when cash is received or paid |

Business Type Activities

The business type activities financial statements report information about the Utilities as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Utilities' assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two business type activities statements report the Utilities' net assets and how they have changed. Net assets - the difference between the Utilities' assets and liabilities - is one way to measure the Utilities' financial health, or position.

- Over time, increases or decreases in the Utilities' net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Utilities you need to consider additional nonfinancial factors such as changes in the Utilities' rates and the condition of the Utilities' equipment.

Fund Financial Statements

The fund financial statements provide more detailed information about the business type activities. Funds are accounting devices that the Utilities use to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Utilities Board establishes other funds to control and manage money for a particular purpose or to show that it is properly using certain monies.

The Utilities has one kind of fund:

- *Proprietary fund* - Services for which the Utilities charge customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information
 - In fact, the Utilities' enterprise funds (one type of proprietary fund) are the same as its business type activities, but provide more detail and additional information, such as cash flows.

FINANCIAL ANALYSIS OF THE UTILITIES AS A WHOLE

Summary and Analysis of Business Type Activities

The Utilities has produced business type activities financial statements using the accrual basis of accounting and economic resources measurement focus. The following tables present condensed information in net assets and changes in net assets for the year ended June 30, 2011.

| | |
|-------------------------------|------------|
| Assets: | |
| Current assets | \$ 590,196 |
| Capital assets | 248,439 |
| | ----- |
| Total Assets | \$ 838,635 |
| | ----- |
| Total Liabilities | \$ 31,893 |
| | ----- |
| Net Assets: | |
| Investment in capital assets, | |
| Net of depreciation | \$ 248,439 |
| Unrestricted | 558,303 |
| | ----- |
| Total Net Assets | \$ 806,742 |
| | ===== |

The amount by which the Utilities' assets exceed its liabilities is called net assets. At year end, the Utilities' net assets were \$806,742. Of that amount, approximately \$248,439 was invested in capital assets, net of depreciation related to those assets. The remaining \$558,303 was unrestricted and available for future use as directed by the Board of Trustees.

| | |
|---|------------|
| Revenues: | |
| Charges for service | \$ 878,186 |
| Miscellaneous income | 18,162 |
| Interest earned | 2,867 |
| | ----- |
| Total Revenues | \$ 899,215 |
| | ----- |
| Business Type Activities Expenses: | |
| Electric | \$ 790,819 |
| Water | 72,172 |
| | ----- |
| Total Business Type Activities Expenses | \$ 862,991 |
| | ----- |
| Increase in Net Assets | \$ 36,224 |
| | ===== |

Net Assets

The Utilities' combined net assets increased by \$36,224 throughout the year's operation to \$806,742. This includes \$2,867 of unrestricted investment earnings.

Changes in Net Assets

The Utilities' total revenues during the year were \$899,215. Nearly all of the Utilities' revenue comes from user fees.

FINANCIAL ANALYSIS OF THE UTILITIES FUNDS

The Electric Fund net assets increased by \$11,652 to \$633,248 due to revenue from user charges exceeding operating expenses.

The Water Fund net assets increased by \$24,572 to \$173,494 due to revenue from user charges exceeding operating expenses.

BUDGETARY HIGHLIGHTS

McGregor Municipal Utilities does not maintain a separate budget. Budgeted charges for service revenue and business type activities disbursements for both the electric and water funds are included as four line items on the City of McGregor budget approved by City Council. All changes in budgeted charges for service revenue and business type activities during the year were included in an amended City of McGregor budget approved by City Council. The Utilities acknowledged \$86,918 less in actual charges for services and \$538 more in actual business type activities disbursements than was included in the final budget. The Utilities also received \$2,867 of investment earnings and \$18,162 of capital grants that were not budgeted for the year. The net effect of differences between the final budget and actual results was a deficit of receipts and other financing sources under disbursements and other financing uses of \$66,427.

CAPITAL ASSET AND DEBT ADMINISTRATION**Capital Assets**

As of June 30, 2011, the Utilities had invested \$1,685,247 (\$248,439 net of accumulated depreciation) in a broad range of capital assets, including equipment, buildings, electric and water lines. This amount represents a net increase (including additions and deductions) of \$20,421 over last year. This year's major capital asset additions included the installation of a new pump and motor for Well #6, extensions to the distribution system, and the purchase of computer equipment.

Debt Administration

The Water Fund borrowed \$32,000 from the Electric Fund for water projects in 2011. The Water Fund repaid \$16,000 to the Electric Fund to bring the June 30, 2011 interfund loan balance to \$16,000. The interfund loan has a 0% interest rate and has no maturity date.

Economic Factors Bearing on the Utilities' Future

The Utilities' two largest vulnerabilities for sizeable capital projects are a generator and a new well. The options regarding a generating unit the Utility Board will face when one of the three generator units expires will be to purchase firm power at a higher rate to make up the difference in energy load, to purchase a new generating unit or to reduce the electric load within our service territory area. The Board has decided when an engine is inoperable they will have an engineering study done in order to figure out what will be in the best interest of the City and our electric utility customers. In February of 2011, MMU replaced the Well #6 pump and motor upgrading to higher efficiency units. MMU also had the well casing videoed at this time. The inspection determined some areas of the well casing to have scale and mineral build up and the bottom of the casing shows some signs of erosion. The casing may suffer deep pitting beneath the mineral and scale build up and will be monitored. The well options will be to schedule another video of the well casing in 2016 to determine whether a brushing of the well casing can be done to remove the mineral and scale build up or if a new well will need to be drilled in the next 10 – 15 years.

McGregor Municipal Utilities has set their goals to reduce their customer's annual kilowatt hour usage by 0.60% or 45,188 kWh's in 2011, 0.75% or 56,717 kWh's in 2012 and 2013. McGregor Municipal Utilities has committed additional expenditures to coincide with the kilowatt hours reduction of \$4,800 in 2011 and \$5,900 in 2012 & 2013 to help promote and achieve their goals. Additional rebates have been and will be added as needed to help meet these goals.

The two water systems of Well #6 & Well #7 were interconnected in December of 2009. Both water systems now have a back-up well in case one would be down for repairs. Future projects will be researching the cost analysis of upgrading equipment in the Well #7 service area for better fire-fighting capabilities and monitoring the status of well #6 as described above.

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Utilities' finances and to demonstrate the Utilities' accountability for the money it receives. If you have questions about this report or need additional financial information, contact the McGregor Utilities office, 126 First Street, McGregor, IA 52157.

BASIC FINANCIAL STATEMENTS

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**STATEMENT OF NET ASSETS
JUNE 30, 2011**

| | Business Type Activities ----- |
|--|--------------------------------------|
| Assets | |
| Cash and cash equivalents | \$ 306,925 |
| Receivables: | |
| Customer accounts and unbilled usage | 117,730 |
| Net of allowance for doubtful accounts of \$5,790 | 157,228 |
| Inventories | 8,313 |
| Restricted assets: | |
| Cash and cash equivalents | 248,439 |
| Capital assets (net of accumulated depreciation) | ----- |
| Total Assets | \$ 838,635 ----- |
| Liabilities | |
| Accounts payable | \$ 10,642 |
| Flex spending | 1,938 |
| Compensated absences | 11,000 |
| Customer deposits (payable from restricted assets) | 8,313 ----- |
| Total Liabilities | \$ 31,893 ----- |
| Net Assets | |
| Invested in capital assets | \$ 248,439 |
| Unrestricted | 558,303 ----- |
| Total Net Assets | \$ 806,742 ===== |

The accompanying notes are an integral part of these financial statements.

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011**

| | Expenses | Charges for Service | Operating Grants, Contributions | Capital Grants, Contributions | Total |
|----------------------------------|--------------|------------------------|---------------------------------------|-------------------------------------|--------------|
| <u>Function/Program:</u> | <u>-----</u> | <u>-----</u> | <u>-----</u> | <u>-----</u> | <u>-----</u> |
| Business Type Activities: | | | | | |
| Electric | \$ 790,819 | \$ 796,150 | \$ --- | \$ 3,861 | \$ 9,192 |
| Water | 72,172 | 82,036 | --- | 14,301 | 24,165 |
| | <u>-----</u> | <u>-----</u> | <u>-----</u> | <u>-----</u> | <u>-----</u> |
| Total Business Type Activities | \$ 862,991 | \$ 878,186 | \$ --- | \$ 18,162 | \$ 33,357 |
| | <u>=====</u> | <u>=====</u> | <u>=====</u> | <u>=====</u> | <u>-----</u> |
| General Revenues: | | | | | |
| Unrestricted investment earnings | | | | | \$ 2,867 |
| | | | | | <u>-----</u> |
| Change in net assets | | | | | \$ 36,224 |
| | | | | | <u>-----</u> |
| Net assets – beginning of year | | | | | \$770,518 |
| | | | | | <u>-----</u> |
| Net assets – end of year | | | | | \$806,742 |
| | | | | | <u>=====</u> |

The accompanying notes are an integral part of these financial statements.

McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

JUNE 30, 2011

| | Proprietary Funds | | |
|--|-------------------|------------|------------|
| | Electric | Water | Total |
| Assets | | | |
| Cash and cash equivalents | \$ 260,550 | \$ 46,375 | \$ 306,925 |
| Receivables: | | | |
| Customer accounts and unbilled usage | | | |
| Net of allowance for doubtful accounts | | | |
| of \$5,204 and \$586 respectively | 105,788 | 11,942 | 117,730 |
| Interfund loan | 16,000 | --- | 16,000 |
| Inventories | 123,388 | 33,840 | 157,228 |
| Restricted assets: | | | |
| Cash and cash equivalents | 8,313 | --- | 8,313 |
| Capital assets (net of accumulated depreciation) | 145,859 | 102,580 | 248,439 |
| Total Assets | \$ 659,898 | \$ 194,737 | \$ 854,635 |
| Liabilities | | | |
| Accounts payable | \$ 5,399 | \$ 5,243 | \$ 10,642 |
| Interfund loan payable | --- | 16,000 | 16,000 |
| Flex spending | 1,938 | --- | 1,938 |
| Compensated absences | 11,000 | --- | 11,000 |
| Payable from restricted assets: | | | |
| Customer deposits | 8,313 | --- | 8,313 |
| Total Liabilities | \$ 26,650 | \$ 21,243 | \$ 47,893 |
| Net Assets | | | |
| Invested in capital assets | \$ 145,859 | \$ 102,580 | \$ 248,439 |
| Unrestricted | | | |
| Undesignated | 383,727 | 70,914 | 454,641 |
| Board designated | 103,662 | --- | 103,662 |
| Total Net Assets | \$ 633,248 | \$ 173,494 | \$ 806,742 |

The accompanying notes are an integral part of these financial statements.

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011**

| | Proprietary Funds | | |
|--------------------------------|-------------------|-----------|------------|
| | Electric | Water | Total |
| Operating Revenue: | | | |
| Charges for service | \$ 796,150 | \$ 82,036 | \$ 878,186 |
| Miscellaneous | 3,861 | 14,301 | 18,162 |
| Total Operating Revenue | \$ 800,011 | \$ 96,337 | \$ 896,348 |
| Operating Expenses: | | | |
| Production Expenses: | | | |
| Supervision and labor | \$ 53,092 | \$ 6,866 | \$ 59,958 |
| Generator and boiler fuel | 8,896 | 357 | 9,253 |
| Power and pumping | --- | 8,364 | 8,364 |
| Chemicals | --- | 688 | 688 |
| Payroll taxes and IPERS | 7,561 | 982 | 8,543 |
| Sales and use taxes | 25,719 | 5,017 | 30,736 |
| Insurance - employee medical | 7,082 | 919 | 8,001 |
| Insurance - general | 9,410 | 3,011 | 12,421 |
| Supplies | 2,975 | 15 | 2,990 |
| Maintenance material and labor | 6,458 | 2,760 | 9,218 |
| Miscellaneous | 1,094 | --- | 1,094 |
| Purchase electrical power | 509,153 | --- | 509,153 |
| Total Production Expenses | \$ 631,440 | \$ 28,979 | \$ 660,419 |
| Distribution Expenses: | | | |
| Supervision and labor | \$ 29,203 | \$ 5,587 | \$ 34,790 |
| Truck expenses | 5,185 | 1,178 | 6,363 |
| Payroll taxes and IPERS | 4,161 | 796 | 4,957 |
| Insurance - employee medical | 3,896 | 746 | 4,642 |
| Insurance - general | 6,274 | 753 | 7,027 |
| Supplies | 3,613 | 1,965 | 5,578 |
| Maintenance material and labor | 293 | 3,052 | 3,345 |
| Miscellaneous | 6,919 | 275 | 7,194 |
| Water lab tests | --- | 591 | 591 |
| Total Distribution Expenses | \$ 59,544 | \$ 14,943 | \$ 74,487 |

The accompanying notes are an integral part of these financial statements.

McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011

| | Proprietary Funds | | |
|---|-------------------|------------|------------|
| | Electric | Water | Total |
| Operating Expenses: (Continued) | | | |
| Accounting and Collection Expenses: | | | |
| Salary and wages | \$ 38,706 | \$ 10,861 | \$ 49,567 |
| Payroll taxes and IPERS | 5,514 | 1,548 | 7,062 |
| Insurance - employee medical | 5,165 | 1,449 | 6,614 |
| Bad debts | (2,116) | (162) | (2,278) |
| Office supplies | 6,533 | 1,594 | 8,127 |
| Miscellaneous | 3,090 | 615 | 3,705 |
| Total Accounting and Collection Expenses | \$ 56,892 | \$ 15,905 | \$ 72,797 |
| Administrative and General: | | | |
| Trustee and treasurer fees | \$ 975 | \$ 825 | \$ 1,800 |
| Professional services & publications expenses | 13,325 | 875 | 14,200 |
| Supplies and miscellaneous | 1,747 | 631 | 2,378 |
| City - County garage | 1,499 | --- | 1,499 |
| Energy efficiency program | 3,799 | --- | 3,799 |
| Total Administrative and General Expenses | \$ 21,345 | \$ 2,331 | \$ 23,676 |
| Total Operating Expenses Before Depreciation | \$ 769,221 | \$ 62,158 | \$ 831,379 |
| Depreciation | 21,585 | 10,014 | 31,599 |
| Net Operating Expenses | \$ 790,806 | \$ 72,172 | \$ 862,978 |
| Net Operating Revenue | \$ 9,205 | \$ 24,165 | \$ 33,370 |
| Non-Operating Revenue (Expenses): | | | |
| Interest income | \$ 2,460 | \$ 407 | \$ 2,867 |
| Interest expense | (13) | --- | (13) |
| Total Non-Operating Revenue | \$ 2,447 | \$ 407 | \$ 2,854 |
| Change in Net Assets | \$ 11,652 | \$ 24,572 | \$ 36,224 |
| Net Assets Beginning of Year | 621,596 | 148,922 | 770,518 |
| Net Assets End of Year | \$ 633,248 | \$ 173,494 | \$ 806,742 |

The accompanying notes are an integral part of these financial statements.

McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011

| | Proprietary Funds | | |
|--|-------------------|-------------|-------------|
| | Electric | Water | Total |
| Cash Flows From Operating Activities: | | | |
| Cash received from customers and users | \$ 796,150 | \$ 82,036 | \$ 878,186 |
| Cash received from other revenues | 3,861 | 14,301 | 18,162 |
| Cash paid for personal services | (154,380) | (29,754) | (184,134) |
| Cash paid to suppliers | (118,292) | (36,042) | (154,334) |
| Cash paid for purchased power | (509,153) | --- | (509,153) |
| Net Cash Provided by Operating Activities | \$ 18,186 | \$ 30,541 | \$ 48,727 |
| Cash Flows From Capital and Related Financing Activities: | | | |
| Acquisition of capital assets | \$ (1,911) | \$ (18,510) | \$ (20,421) |
| Interest paid | (13) | --- | (13) |
| Proceeds from interfund loan advance | --- | 32,000 | 32,000 |
| Payments on interfund loan | --- | (16,000) | (16,000) |
| Net Cash Used for Capital and Related Financing Activities | \$ (1,924) | \$ (2,510) | \$ (4,434) |
| Cash Flows From Investing Activities: | | | |
| Interest on investments | \$ 2,460 | \$ 407 | \$ 2,867 |
| Interfund loan advance | (32,000) | --- | (32,000) |
| Proceeds from payments on interfund loan | 16,000 | --- | 16,000 |
| Net Cash Provided (Used) by Investing Activities | \$ (13,540) | \$ 407 | \$ (13,133) |
| Net Increase in Cash and Cash Equivalents | \$ 2,722 | \$ 28,438 | \$ 31,160 |
| Cash and Cash Equivalents Beginning of Year | 266,141 | 17,937 | 284,078 |
| Cash and Cash Equivalents End of Year | \$ 268,863 | \$ 46,375 | \$ 315,238 |

The accompanying notes are an integral part of these financial statements.

McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011

| | Proprietary Funds | | |
|---|-------------------|------------------|-------------------|
| | Electric | Water | Total |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities: | | | |
| Operating income | \$ 9,205 | \$ 24,165 | \$ 33,370 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation expense | 21,585 | 10,014 | 31,599 |
| Decrease in allowance for doubtful accounts | (3,094) | (162) | (3,256) |
| Increase (decrease) in customer accounts receivable | 8,707 | (2,263) | 6,444 |
| Increase in inventories, at cost | (15,509) | (1,367) | (16,876) |
| Increase (decrease) in accounts payable | (2,423) | 154 | (2,269) |
| Decrease in flex spending | (302) | --- | (302) |
| Increase in customer deposits | 17 | --- | 17 |
| Net Cash Provided by Operating Activities | <u>\$ 18,186</u> | <u>\$ 30,541</u> | <u>\$ 48,727</u> |
| Reconciliation of Cash and Cash Equivalents at Year End to Specific Assets Included on the Statement of Net Assets: | | | |
| Current Assets: | | | |
| Cash | \$ 260,550 | \$ 46,375 | \$ 306,925 |
| Restricted Assets: | | | |
| Cash: | | | |
| Customer deposits | 8,313 | --- | 8,313 |
| Cash and Cash Equivalents at Year End | <u>\$ 268,863</u> | <u>\$ 46,375</u> | <u>\$ 315,238</u> |

The accompanying notes are an integral part of these financial statements.

McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1 - Summary of Significant Accounting Policies:

The McGregor Municipal Utilities (the Utility) are separate enterprise funds of the City of McGregor. The Utility provides electricity and water to properties within the City of McGregor and is managed by the Board of Trustees, who are appointed by the mayor and approved by the City Council.

The financial statements of the McGregor Municipal Utilities have been prepared in conformity with U.S. generally accepted accounting principals (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the McGregor Municipal Utilities has included all funds, organizations, agencies, boards, commissions and authorities. The Utility has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. The Utility has no component units which meet these criteria.

B. Basis of Presentation

Proprietary Fund Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the proprietary funds. For the most part, the effect of interfund activity has been removed from these statements. Business type activities rely to a significant extent on fees and charges for services.

The Statement of Net Assets presents the Utility's proprietary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1 - Summary of Significant Accounting Policies: (Continued)

B. Basis of Presentation (Continued)

Invested in capital asset consists of capital assets, net of accumulated depreciation.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Interest earnings and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for proprietary funds. Major individual proprietary funds are reported as separate columns in the fund financial statements.

The Utility reports the following major proprietary funds:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the Utility's water system.

The Electric Fund is used to account for the operation and maintenance of the Utility's electric system.

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 1 - Summary of Significant Accounting Policies: (Continued)

C. Measurement Focus and Basis of Accounting

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

The proprietary funds of the Utility apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utility's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Estimates - The preparation of financial statements in conformity with United States of America generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 1 - Summary of Significant Accounting Policies: (Continued)

D. Assets, Liabilities and Fund Equity (Continued)

Cash and Cash Equivalents – The cash balances of most Utility funds are pooled and invested. Investments consist of non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, have a maturity date no longer than one year.

Customer Accounts Receivable – Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

The Utility uses the allowance method of accounting for bad debts, which is a percentage of the accounts receivable.

Inventories – Inventories consist of supplies, fuel oil and materials for distribution repair. Extensions are recognized as expense or capital improvements at the time they are put into service. Inventory items are valued at the lower of cost or market, using the first-in, first-out method.

Restricted Assets – Restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

Capital Assets – Capital assets include property, equipment and vehicles. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extend asset lives are not capitalized.

McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Fund Equity (Continued)

Capital assets of the Utility are depreciated using the straight line method over the following estimated useful lives:

| Asset Class | Estimated Useful Lives (In Years) |
|--------------------------|---|
| Buildings | 10-33 years |
| Generators and Equipment | 8-25 years |
| Distribution System | 20-25 years |
| Vehicles | 5-10 years |
| Office Equipment | 10 years |
| Interconnect | 25 years |

Compensated Absences – Employees accumulate sick time and vacation for subsequent use. The Utility's policy provides for payout of accumulated vacation and comp time and prohibits payoff of accumulated sick time at termination of employment. The Utility's approximate liability for earned vacation and comp time payments to employees at June 30, 2011 was \$11,000 for the Electric Fund. The liability has been computed based on rates of pay at June 30, 2011.

Fund Equity – In the proprietary fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the business type activities function.

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 2 - Cash and Cash Equivalents:

The Utility's deposits in banks at June 30, 2011, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 3 – Capital Assets:

Capital assets activity for the year ended June 30, 2011 was as follows:

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|--|---------------------------------|-------------|-----------|------------------------|
| | ----- | ----- | ----- | ----- |
| Business Type Activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,140 | \$ --- | \$ --- | \$ 1,140 |
| | ----- | ----- | ----- | ----- |
| Total Capital Assets Not Being Depreciated | \$ 1,140 | \$ --- | \$ --- | \$ 1,140 |
| | ----- | ----- | ----- | ----- |
| Capital Assets Being Depreciated: | | | | |
| Buildings | \$ 71,526 | \$ --- | \$ --- | \$ 71,526 |
| Office equipment | 23,779 | 1,591 | --- | 25,370 |
| Generators and equipment | 657,750 | --- | --- | 657,750 |
| Pump and equipment | 27,059 | 18,380 | --- | 45,439 |
| Chlorinator | 3,960 | --- | --- | 3,960 |
| Distribution system | 651,189 | 450 | --- | 651,639 |
| Interconnect | 64,809 | --- | --- | 64,809 |
| Vehicles | 107,200 | --- | --- | 107,200 |
| Well | 12,005 | --- | --- | 12,005 |
| Reservoir | 44,409 | --- | --- | 44,409 |
| | ----- | ----- | ----- | ----- |
| Total Capital Assets Being Depreciated | \$ 1,663,686 | \$ 20,421 | \$ --- | \$ 1,684,107 |
| | ----- | ----- | ----- | ----- |
| Less Accumulated Depreciation For: | | | | |
| Buildings | \$ 55,183 | \$ 1,295 | \$ --- | \$ 56,478 |
| Office equipment | 23,779 | 53 | --- | 23,832 |
| Generators and equipment | 606,560 | 4,918 | --- | 611,478 |
| Pump and equipment | 16,479 | 1,057 | --- | 17,536 |
| Chlorinator | 3,960 | --- | --- | 3,960 |
| Distribution system | 498,683 | 16,061 | --- | 514,744 |
| Interconnect | 64,809 | --- | --- | 64,809 |
| Vehicles | 96,500 | 6,440 | --- | 102,940 |
| Well | 12,005 | --- | --- | 12,005 |
| Reservoir | 27,251 | 1,775 | --- | 29,026 |
| | ----- | ----- | ----- | ----- |
| Total Accumulated Depreciation | \$ 1,405,209 | \$ 31,599 | \$ --- | \$ 1,436,808 |
| | ----- | ----- | ----- | ----- |
| Total Capital Assets Being Depreciated, Net | \$ 258,477 | \$ (11,178) | \$ --- | \$ 247,299 |
| | ----- | ----- | ----- | ----- |
| Business Type Activities Capital Assets, Net | \$ 259,617 | \$ (11,178) | \$ --- | \$ 248,439 |
| | ===== | ===== | ===== | ===== |

McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 3 – Capital Assets: (Continued)

Depreciation expense was charged to functions of the primary proprietary funds as follows:

Business type activities:

| | |
|---|-----------|
| Electric | \$ 21,585 |
| Water | 10,014 |
| | ----- |
| Total depreciation expense – business type activities | \$ 31,599 |
| | ===== |

Note 4 – Pension and Retirement Benefits:

The Utility contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.50% of their annual covered salary and the Utility is required to contribute 6.95% of annual covered payroll. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$10,046, \$9,368, and \$9,611, respectively, equal to the required contributions for each year.

Note 5 – Risk Management:

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 6 – Firm Power Agreement:

On January 7, 2008, the Utility entered into a “Firm Power Agreement” with Dairyland Power Cooperative. Under the terms of the agreement, the Utility will purchase from Dairyland Power Cooperative (rather than generate) the majority of its electrical energy. This Agreement became effective on May 1, 2008, and remains in effect through April 30, 2028. This Agreement shall renew for an intermediate term thereafter unless terminated by either party by written notice of at least 24 months to the other party. The Utility paid \$509,153 for purchased power under this agreement for the year ended June 30, 2011.

Note 7 - Board Designated Net Assets:

The board of trustees have designated unrestricted net assets in the electric fund for the following purposes:

| | |
|-------------------|------------|
| Operating reserve | \$ 94,075 |
| Special projects | 9,587 |
| | ----- |
| | \$ 103,662 |
| | ===== |

Note 8 - Interfund Loan:

| Due From | Due To | Balance Beginning of Year | Advances | Payments | Ending Balance |
|----------|----------|---------------------------------|-----------|-----------|-------------------|
| ----- | ----- | ----- | ----- | ----- | ----- |
| Water | Electric | \$ --- | \$ 32,000 | \$ 16,000 | \$ 16,000 |

The interfund loan will be paid back at 0% interest and has no maturity date.

Note 9 - Excess of Disbursements Over Budget:

For the year ended June 30, 2011 disbursements exceeded the budget for the business type activities function by \$538.

Note 10 - Subsequent Events:

Management has evaluated subsequent events through December 9, 2011, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA

**BUDGETARY COMPARISON SCHEDULE OF
RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES –
BUDGET AND ACTUAL (CASH BASIS) –
PROPRIETARY FUNDS**

YEAR ENDED JUNE 30, 2011

| | Proprietary Funds Actual | Budgeted Amounts | | Final to Actual Variance |
|---|--------------------------------|------------------|------------|--------------------------------|
| | ----- | Original | Final | ----- |
| Receipts: | | | | |
| Charges for services | \$ 881,374 | \$1,023,322 | \$ 968,292 | \$ (86,918) |
| Miscellaneous | 18,162 | --- | --- | 18,162 |
| Investment earnings | 2,867 | --- | --- | 2,867 |
| | ----- | ----- | ----- | ----- |
| Total Revenues | \$ 902,403 | \$1,023,322 | \$ 968,292 | \$ (65,889) |
| | ----- | ----- | ----- | ----- |
| Disbursements: | | | | |
| Business type activities | \$ 871,243 | \$ 930,375 | \$ 870,705 | \$ (538) |
| | ----- | ----- | ----- | ----- |
| Excess (Deficiency) of Receipts Over (Under) Disbursements | \$ 31,160 | \$ 92,947 | \$ 97,587 | \$ (66,427) |
| | ----- | ----- | ----- | ----- |
| Balances Beginning of Year | 284,078 | 284,078 | 284,078 | --- |
| | ----- | ----- | ----- | ----- |
| Balances End of Year | \$ 315,238 | \$ 377,025 | \$ 381,665 | \$ (66,427) |
| | ===== | ===== | ===== | ===== |

See accompanying independent auditor's report.

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**BUDGET TO GAAP RECONCILIATION
YEAR ENDED JUNE 30, 2011**

| | Proprietary Funds Enterprise | | |
|------------------------------------|---------------------------------|------------------------|------------------|
| | Cash Basis | Accrual Adjustments | Accrual Basis |
| Revenues | \$ 902,403 | \$ (3,188) | \$ 899,215 |
| Expenditures/Expenses | 871,243 | (8,252) | 862,991 |
| Net | \$ 31,160 | \$ 5,064 | \$ 36,224 |
| Beginning Fund Balances/Net Assets | 284,078 | 486,440 | 770,518 |
| Ending Fund Balances/Net Assets | \$ 315,238 | \$ 491,504 | \$ 806,742 |

See accompanying independent auditor's report.

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2011**

In accordance with the Code of Iowa, the Utility annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon major classes of disbursements known as functions, not by fund or fund type. Although the budget document presents function disbursements by fund, the legal level of control is at the city wide aggregated function level, not by fund.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the business type activities function.

OTHER SUPPLEMENTARY INFORMATION

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

ELECTRIC FUND

**SALES ANALYSIS FOR THE YEAR ENDED
JUNE 30, 2011 – CASH BASIS WITH COMPARATIVE
FIGURES FOR THE THREE PREVIOUS YEARS
UNAUDITED**

| | Year Ended | | | |
|------------------------|---------------|---------------|---------------|---------------|
| | 2011 | 2010 | 2009 | 2008 |
| KWH Sold: | | | | |
| Residential | 3,369,941 KWH | 3,066,401 KWH | 3,248,659 KWH | 3,343,769 KWH |
| Industrial | 1,742,120 KWH | 1,843,360 KWH | 1,948,000 KWH | 1,914,640 KWH |
| Commercial | 1,435,191 KWH | 1,378,095 KWH | 1,508,630 KWH | 1,515,963 KWH |
| Public authority | 312,604 KWH | 302,494 KWH | 317,579 KWH | 338,089 KWH |
| Others | 336,744 KWH | 359,884 KWH | 372,159 KWH | 359,559 KWH |
| Street lights | 131,238 KWH | 134,022 KWH | 134,470 KWH | 128,908 KWH |
| Total | 7,327,838 KWH | 7,084,256 KWH | 7,529,497 KWH | 7,600,928 KWH |
| KWH Sold: (Percent) | | | | |
| Residential | 45.99% | 43.29% | 43.14% | 43.99% |
| Industrial | 23.77% | 26.02% | 25.87% | 25.19% |
| Commercial | 19.58% | 19.45% | 20.04% | 19.94% |
| Public authority | 4.27% | 4.27% | 4.22% | 4.45% |
| Others | 4.60% | 5.08% | 4.94% | 4.73% |
| Street lights | 1.79% | 1.89% | 1.79% | 1.70% |
| Total | 100.00% | 100.00% | 100.00% | 100.00% |
| Sales: | | | | |
| Residential | \$ 376,760 | \$ 363,693 | \$ 331,088 | \$ 324,304 |
| Industrial | 189,319 | 211,771 | 197,369 | 176,000 |
| Commercial | 162,259 | 165,595 | 153,416 | 144,612 |
| Public authority | 31,379 | 32,796 | 29,485 | 28,827 |
| Other | 34,197 | 38,513 | 33,677 | 30,380 |
| Street lights | 13,954 | 15,097 | 12,795 | 11,384 |
| Total | \$ 807,868 | \$ 827,465 | \$ 757,830 | \$ 715,507 |
| Sales: (Percent) | | | | |
| Residential | 46.64% | 43.95% | 43.69% | 45.32% |
| Industrial | 23.43% | 25.59% | 26.04% | 24.60% |
| Commercial | 20.09% | 20.01% | 20.25% | 20.21% |
| Public authority | 3.88% | 3.96% | 3.89% | 4.03% |
| Others | 4.23% | 4.66% | 4.44% | 4.25% |
| Street lights | 1.73% | 1.83% | 1.69% | 1.59% |
| Total | 100.00% | 100.00% | 100.00% | 100.00% |
| Selling Price Per KWH: | | | | |
| Residential | \$.11180 | \$.11861 | \$.10191 | \$.09699 |
| Industrial | .10867 | .11488 | .10132 | .09192 |
| Commercial | .11306 | .12016 | .10169 | .09539 |
| Public authority | .10038 | .10842 | .09284 | .08526 |
| Others | .10155 | .10702 | .09049 | .08449 |
| Street lights | .10633 | .11265 | .09515 | .08831 |
| Average all types | \$.11025 | \$.11680 | \$.10065 | \$.09413 |

See accompanying independent auditor's report.

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

ELECTRIC FUND

**COMPARATIVE STATISTICAL DATA – KWH PRODUCED AND PURCHASED
AND KWH SOLD AND LOST**

UNAUDITED

| | Year Ended | | | |
|---------------------------------|---------------|---------------|---------------|---------------|
| | June 30, 2011 | June 30, 2010 | June 30, 2009 | June 30, 2008 |
| KWH produced and purchased | 7,893,905 | 7,528,946 | 7,934,386 | 8,012,723 |
| Less: sold | 7,327,838 | 7,084,256 | 7,529,497 | 7,600,928 |
| Balance Unsold | 566,067 | 444,690 | 404,889 | 411,795 |
| Percent Sold | 92.83% | 94.09% | 94.90% | 94.86% |
| Unsold Balance Used as Follows: | | | | |
| Station service | 147,950 | 135,170 | 136,570 | 111,800 |
| Line loss and unaccounted for | 418,117 | 309,520 | 268,319 | 299,995 |
| | 566,067 | 444,690 | 404,889 | 411,795 |
| Line Loss Percentage | 5.30% | 4.11% | 3.38% | 3.74% |

See accompanying independent auditor's report.

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

WATER FUND

**COMPARATIVE STATISTICAL DATA
WATER SOLD AND WATER PUMPED**

UNAUDITED

| | Year Ended | | | |
|---|-------------------|---------------|---------------|---------------|
| | June 30, 2011 | June 30, 2010 | June 30, 2009 | June 30, 2008 |
| | ----- | ----- | ----- | ----- |
| Cubic feet of water pumped | 5,208,369 | 4,633,757 | 4,672,326 | 5,003,862 |
| Less: metered sales | 2,570,897 | 2,665,935 | 2,960,414 | 3,120,975 |
| | ----- | ----- | ----- | ----- |
| Balance (unmetered sales and unsold water) | 2,637,472 | 1,967,822 | 1,711,912 | 1,882,887 |
| | ===== | ===== | ===== | ===== |
| Percent of metered sales to water pumped | 49.36% | 57.53% | 63.36% | 62.37% |
| | ===== | ===== | ===== | ===== |

See accompanying independent auditor's report.

O'CONNOR, BROOKS & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

W.H. LEGLAR, CPA
S.J. DOMEYER, CPA
M.A. KUEPERS, CPA
J.W. HANNAN, CPA
M.P. RUGGEBERG, CPA
P.C. MCCARTHY, CPA
E.A. SCHILLING, CPA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
McGregor Municipal Utilities
McGregor, Iowa

We have audited the accompanying basic financial statements of the McGregor Municipal Utilities of the City of McGregor, Iowa, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 9, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our report expressed a qualified opinion on the financial position of the business-type activities and each major fund of McGregor Municipal Utilities due to the Utilities not implementing GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions and a disclaimer of opinion on the results of operations and cash flows. In addition, our report included a disclaimer of opinion on the required supplementary information included in the Management's Discussion and Analysis and pages 25-27.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered McGregor Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of McGregor Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of McGregor Municipal Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility a material misstatement of McGregor Municipal Utilities' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Questioned Costs as items I-A-11, I-B-11, I-C-11, and I-D-11 to be material weaknesses.

1415 LOCUST STREET
P.O. BOX 743
DUBUQUE, IOWA 52004-0743
PHONE (563) 582-7224
FAX (563) 582-6118

MEMBERS OF:
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
IOWA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

www.oconnorbrooks.com

901 SPRING STREET
P.O. BOX 294
GALENA, ILLINOIS 61036
PHONE (815) 777-1880
FAX (815) 777-3092

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the McGregor Municipal Utilities financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the McGregor Municipal Utilities' operations for the year ended June 30, 2011, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the entities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

McGregor Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utility's responses, we did not audit the Utility's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the McGregor Municipal Utilities of the City of McGregor and other parties to whom the Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the McGregor Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

O'CONNOR, BROOKS & CO., P.C.

O'Connor Brooks & Co. P.C.

Dubuque, Iowa
December 9, 2011

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011**

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

MATERIAL WEAKNESSES:

- I-A-11 **Segregation of Duties** – The size of the Utility's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances, and the Board of Trustees remain involved in the financial affairs of the Utility to provide oversight and independent review functions.

Response – We will consider this.

Conclusion – Response acknowledged.

- I-B-11 **Cash Reconciliation** – Cash is being reconciled from the Utility's bank statements to the cash subsidiary ledger, however the reconciled cash balance is not being compared to the general ledger balance.

Recommendation – A cash reconciliation that reconciles from the bank balance to the general ledger balance should be prepared to make sure they are in agreement and to determine that all cash transactions have been recorded properly and to discover bank errors.

In order to make the financial reports generated by the accounting system as meaningful as possible, the Utility should reconcile the general ledger accounts for cash to supporting documentation on a monthly basis. A benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations.

Response – Cash will be reconciled to the general ledger in the future.

Conclusion – Response accepted.

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011**

Part I: Findings Related to the Financial Statements: (Continued)

MATERIAL WEAKNESSES: (Continued)

I-C-11 **Adjusting Journal Entries** - Material adjusting journal entries were provided to management to represent a fair presentation of the financial statements.

Recommendation - Management should review account balances at fiscal year-end to assure that all information is included and is recorded properly.

Response - We will review account balances at year-end to assure all financial information is included and is recorded properly.

Conclusion - Response accepted.

I-D-11 **Financial Statement Presentation and Disclosures** - Reporting the Utilities' financial information in accordance with GAAP requires management to possess sufficient accounting knowledge to select and apply accounting principles and prepare year end financial statements and footnote disclosures. The Utilities' management team does not include someone with those qualifications and training to fulfill these responsibilities, which is a common situation in small governmental entities.

Recommendation - Obtaining additional GAAP knowledge from relevant accounting literature and attending professional education courses should assist management in their ability to take responsibility for reliable GAAP financial statements.

Response - We will take steps to have management obtain additional GAAP knowledge to assist in the preparation of reliable GAAP financial statements.

Conclusion - Response accepted.

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011**

Part II: Other Findings Related to Required Statutory Reporting:

II-A-11 **Certified Budget** – Disbursements during the year ended June 30, 2011, exceeded the amounts budgeted in the business type activities function. Chapter 384.20 of the Code of Iowa states, in part, "public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

II-B-11 **Questionable Disbursements** – We noted no expenditures for parties, banquets or other entertainment for utility employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

II-C-11 **Travel Expense** – No expenditures of Utility money for travel expenses of spouses of Utility officials or employees were noted.

II-D-11 **Business Transactions** – No business transactions between the Utility and the Utility's directors or employees were noted.

II-E-11 **Bond Coverage** – Surety bond coverage of city officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-11 **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes which were not.

II-G-11 **Deposits and Investments** – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utility's investment policy.